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Financial Markets

Irving Trust

Irving Trust Company
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Economic Research &
Planning Division

Friday
(noon)

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The increase of the Federal Reserve discount rate to 11% from 10% on Thursday afternoon dispelled much of the uncertainty that had characterized the market's perception of Fed policy. For the most part, trading had been thin and nervous, showing high volatility and little direction. In part, of course, the hesitation and lack of conviction reflected market participants' inability to divine the implications of the Iraqi-Iranian conflict for the future of oil supplies, price pressures, etc. Lacking any clear interpretation, many participants resolutely kept to the sidelines.

The discount rate increase underlines the Fed's commitment to restraining the pace of monetary growth. Last week's strong money stock data put M1B slightly above the top of its 4%-6 1/2% target range, and the Fed--reflecting the unexpectedly strong economic indicators recently--undoubtedly revised upward its GNP projections for the near term. Since these projections are important input to the Fed's money stock forecasting procedure, the revision must have confronted policymakers with a reduced likelihood of returning the money stock to its target range without higher interest rates, at least for a while.

Our feeling is that the Fed has emphasized its determination to return the money stock back to path by temporarily depressing the reserves growth path. Hence, for the immediate future the Fed funds rate can be expected to remain in the 12% area. Over a longer horizon, we continue to expect rates to ease off--a prospect that may easily be obscured temporarily as the Fed moves to counter the recent rapid money growth.

Almost every day for two weeks, the Fed has passed customer RPs through to the market. In part, these actions have been a predictable response to movements of reserve operating factors. But the volume of temporary investment orders received by the Fed from its foreign customers has been extremely high lately. On a weekly average basis, such orders normally are in the $2-2 1/2 billion range. Lately they have been in excess of $3 billion. Our best guess is that this development reflects in large part the tense Middle East situation, with some foreign governmental organizations desiring to seek a haven in short-term dollar investments. To the extent that the inflow of such orders swells, the Fed will be tempted to pass them through to the market more frequently and in greater size than normally.

William C. Melton

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Market Yields

	9/26/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors			
with highest credit rating	13.00%	12.50%	13.50%
Effective since	9/26/80		
Discount Rate at Federal Reserve Bank	11.00	10.00	11.00
Federal Funds	11.88	10.75	11.88
Repurchase Agreements	11.50	10.00	11.15
U.S. Treasury Issues			
Bills			
3 months	11.25	10.01	10.70
6 months	12.25	10.35	10.84
1 year	12.50	10.40	10.88
Coupons			
2 years	12.47	11.65	10.15
4 years	12.30	11.75	9.64
7 years	12.10	11.76	9.48
10 years	12.02	11.35	9.44
Long Bond	11.85	11.30	9.26
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.80	11.00	11.80
3 months	12.10	11.10	12.00
6 months	12.65	11.60	12.25
1 year	12.75	11.70	11.75
Banker's Acceptances			
1 month	12.00	10.75	11.90
3 months	12.30	11.10	12.20
6 months	12.70	11.40	12.40
Eurodollar Deposits			
1 month	12.13	11.25	12.25
2 months	12.44	11.63	12.50
3 months	13.06	11.88	12.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.75	6.00	11.00
1 month	11.50	10.50	11.38
3 months	10.75	10.63	11.00
Bank Holding Companies			
1 month	11.25	10.63	11.60
Dealer Placed:			
3 months	11.88	10.88	11.50
New AA Corporate Utility Bond	13.75	13.13	10.25
Tax Exempt			
6 month Project Notes	5.45	5.50	5.30
1 year AAA Bond	6.00	5.90	NA
5 year AAA Bond	6.30	6.10	NA
20 year AAA Bond	8.60	8.00	6.15

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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